

PRECOUNCIL MEETING
CITY OF LINCOLN ANNUAL FINANCIAL REPORT
FINANCE DEPARTMENT
MARCH 7, 2005

PRESENT: TERRY WERNER, KEN SVOBODA, GLENN FRIENDT, JON CAMP, PATTE NEWMAN, ANNETTE McROY; DON HERZ, ROGER WATTON, PARTNER, BKD; JAMIE JOHNSON, SR. MANAGER, BKD; PEGGY WATCHORN, CITY CONTROLLER; JANE TILLMAN, ASSISTANT CONTROLLER; AND DAVE SCHEULER, ACCOUNTANT

ABSENT: JONATHAN COOK

Terry Werner opened the meeting at 10:45 A.M. Don Herz introduced the BKD auditors, City Staff, and recognized Jane Tillman for her completion of the last ten City Annual Financial Reports (CAFR's).

Roger Watton stated, as part of the BKD audit, the financial statements of the City were evaluated within the internal control structure. The evaluation was only part of the overall audit plan, regarding the financial statements. Watton said the City was strong in the General Fund., compared to the budget last year. The statement comparing budget to actual was very favorable. He said the City did an excellent job in bringing in revenue, versus what was budgeted. The General Fund net assets were beyond what was expected. The EMS accounts receivable had excellent internal controls.

The Management Letter included franchise fees; requests for project reimbursement; emergency medical service accounts receivable, new auditing and accounting pronouncements, including GASB 40 amending the custodial credit risk disclosure provisions of GASB 3, and making conforming amendments to GASB 25 and 28.

There was some discussion on GASB 45, which was accounting and financial reporting by employers for post-employment benefits other than pensions. Watton said post-employment benefits could be troublesome for some entities and how it affects their financial conditions. Herz said the City does not have these benefits, so probably would not be affected.

Patte Newman asked Watton if there was any value in having an internal auditor (IA) perform an efficiency audit of City departments; what he would foresee the cost to be; and whom would they report to.

Watton said, "What we are seeing on the governmental side, various practical things could come out of this, and I would encourage you to look at it. The first time around is not always successful. It is a broad range of functions and responsibilities. You have had an IA in the past, and mostly used this internally in the Finance Department. A number of cities have tried this, and not had success. That is why putting in sync your expectations is critical. There is cost to go with it. I

would not suggest penciling out a cost benefits ratio. It would be hard to say that there is an absolute payback. This would depend on goals and objectives. Would it be a performance efficiency audit, looking at processes (another set of eyes). Might be a throw-back of an IA position. The theory is a good one. Have your audit committee in place now, or set up a new committee to work on those goals, a committee forum. There could be analysts. Hone in on what you are trying to accomplish. Need to work through goals in place and responsibilities of an IA. Then hire a person with qualifications to do that. I would estimate the salary between \$75,000 - \$100,000, including complete compensation and benefits. Might be a throw-back position. Putting in sync your expectations is critical."

Newman asked if Watton thought this would be worthwhile to the City. Watton said it was difficult to decide, stating possibly it could be. Camp asked what he thought was being done, and if he thought an IA was needed. Watton stated, hiring an IA is not always successful the first time. Meeting adjourned at 11:10 A.M.